INFORMED BUDGETEER

THE WARM-UP ACT

- On the afternoon of May 20, the Senate adopted H.R. 1141, the Conference Agreement on the Emergency Supplemental Appropriation Bill for FY 1999 by a vote of 64 - 36 and sent it on to the President for his signature. Over the life of the bill, CBO estimates that net spending authority from enactment of H.R. 1141 will increase BA, $13.4 billion and outlays $14.6 billion.

- The bill reduces the current FY 1999 budget surplus estimates by $3.7 billion -- from $111 billion to about $107 billion. The FY 1999 on-budget *deficit* would increase from $16 billion to $20 billion. Similarly, the current FY 2000 budget surplus estimate would decline nearly $7.4 billion -- from $133 billion to $126 billion. The FY 2000 on-budget *deficit* would increase from $5 billion to over $12 billion.

- Emergency spending -- spending not subject to statutory spending limits in FY 1999 and 2000 - -would reach $14.7 billion (both BA and outlays). Nearly $11 billion of the emergency spending would be designated for defense related expenditures including the President's $5 billion request for Kosovo operations and munitions, supplemented by, among other things, Congressional adds of $2.1 billion for procurement and spare parts and $1.8 billion for military pay and pension reforms.

- The remaining $3.8 billion for nondefense emergency spending includes $1.1 billion in funds for Kosovo refugee aid, $814 million for Central American aid following last fall's Hurricane Mitch destruction, $100 million for aid to Jordan, $574 million for U.S. farmer assistance, and $900 million for FEMA to offset costs in part associated with recent tornadoes in the country's midsection.

- H.R. 1141, when combined with the FY 1999 emergency funding bill enacted into law last fall for military readiness, anti-terrorism, Y2K and other emergencies, brings to a total $34.2 billion in emergency spending authority for this year. This would be the second largest emergency spending in a fiscal year, second only to the $45.9 billion authorized in FY 1991 for Dessert Storm and Dessert Shield requirements.

FY 1999 Supplemental Appropriations, H.R. 1141
Conference Agreement, by FY, $ in millions)

		1999	2000	Life of Bill
Discretionary:				
Emergencies				
Defense	BA	9,249	1,838	11,087
	OT	2,525	6,328	10,958
Non-defense	BA	3,533	43	3,576
	OT	1,057	930	3,807
Total emergencies	BA	12,782	1,881	14,663
	OT	3,582	7,258	14,765
Non-emergencies				
Defense	BA	1	- -	1
	OT	19	17	7
Non-defense	BA	-300	74	-178
	OT	76	85	-189
Total non-	BA	-299	74	-177
emergencies	OT	95	102	-182
	BA	9,050	1,838	10,888
Total Discretionary	OT	2,528	6,185	10,765
	BA	-1,135	- -	-1,135
Mandatory[A]	OT	- -	- -	- -
	BA	11,348	1,955	13,351
Total Bill	OT	3,677	7,360	14,583

SOURCE: Congressional Budget Office. [A]Includes Food Stamp recission of -$1,250 million (assigned to appropriations committee) and grants-in-aid for airports supplemental of $115 million (assigned to authorizing committee).

- While the supplemental includes $12.8 billion in FY 1999 emergency appropriations that will reduce the surplus, under the Budget Enforcement Act, this emergency spending is effectively exempted from the caps.

- For Budget Act points of order, the Congress relies on CBO estimates to determine whether the discretionary caps have been met. For sequester purposes, OMB is responsible for determing the level of apropriated spending relative to the caps.

- OMB's final scoring of the supplemental will not be available until after the bill is signed. It appears that OMB will not score the $1.1 billion rescission in the Food Stamp program as a savings relative to the caps because this rescission will not affect direct spending. Excluding emergency appropriations and the Food Stamp rescision, the Supplemental will reduce BA by $185 million and increase outlays by $76 million in FY 1999 by CBO estimates. The table below compares the Bulletin's best estimate of where nondefense discretionary spending will stand relative to the caps under OMB estimates.

Nondefense Discretionary Spending and the FY 1999 Caps
($ in millions)

	BA	OT
Preview Report Limit	284,533	274,324
Enacted Spending[A]	284,371	271,553
Nondefense 1999 balance	-162	-2,771
Supplemental nondefense disc. spending[B]	-185	+76
New nondefense FY 1999 balance	-347	-1,695

[A]OMB Estimates. [B]CBO Estimate

THE HEADLINE ACT

- The Budget Act requires the Committee on Appropriations to allocate both BA and outlays (among its 13 subcommittees) from the aggregate discretionary BA and outlays set out in the FY 2000 Budget Resolution. For FY 2000, both the budget resolution and the President's budget assumed that the statutory spending *caps* enacted in 1997 would be observed.

Comparison of 302 (b) Allocations
($ in Billions)

	1999		House: 2000		2000 vs. 1999	
	BA	OT	BA	OT	BA	OT
Agriculture	14.0	14.1	14.0	14.5	0	0.4
Commerce-Justice	32.6	30.6	30.5	30.8	-2.1	0.2
Defense	250.3	248.3	270.3	261.7	20.0	13.4
D.C.	0.6	0.6	0.5	0.5	-0.2	-0.2
Energy- Water	21.2	20.4	19.4	19.3	-1.8	-1.1
Foreign Ops	13.3	12.7	10.4	11.7	-2/9	-0.8
Interior	13.8	14.0	11.3	11.7	-2.5	-2.3
Labor-HHS	83.8	80.4	78.1	78.9	-5.7	-1.5
Legislative	2.4	2.3	2.5	2.5	0.1	0.2
Mil Con	8.7	9.4	8.7	9.0	0.1	-0.4
Transportation	11.9	40.8	12.7	43.5	0.8	2.7
Treasury	14.0	12.9	13.6	14.1	-0.5	1.2
VA-HUD	71.0	80.4	66.2	79.7	-4.8	-0.7
Total	537.6	567.0	538.2	578.8	0.5	11.2
2000 Disc. Cap	- -	- -	538.2	578.8		
Allocation vs. Cap	- -	- -	0	0		

SOURCE: SBC Majority Staff

- For FY 2000 then, discretionary spending amounting to $538 billion in BA and $579 billion in outlays will be distributed among the 13 Appropriation subcommittees. Beginning with the 2000 appropriation process, there are no longer separate caps for defense and nondefense discretionary spending.

- On May 19, the House Appropriations Committee completed its "302(b)" allocation process--its name derived from the section of the Budget Act that establishes this enforcement procedure. The

Senate Appropriations Committee is expected to launch its 302(b) exercise on May 25, before reporting its first 2000 appropriation bill for defense. Failure to file a 302(b) allocation can subject any reported appropriation bill to a supermajority point of order in the Senate -- 60 affirmative votes to waive.

- The preceding table presents the House Appropriation Committee's 302(b) allocation for 2000 compared to the current 1999 estimates of each subcommittee, excluding any discretionary emergency spending in 1999 (such as H.R. 1141 discussed in the previous section) or other one-time adjustments to the spending caps in 1999, such as IMF, UN arrears, etc.

- Not yet incorporated into the comparison table is the net impact of any 1999 nonemergency spending items that will be enacted in this latest Emergency Supplemental Bill for FY 1999.

PUBLIC POLICY ISSUES

BANANAS, BEEF, AND BIOTECHNOLOGY

- Recent headlines have focused attention on trade disputes between the U.S. and the European Union (EU) over EU import restrictions on bananas produced outside of certain Carribean island nations, and U.S. beef produced using efficiency-enhancing compounds.

- While bananas and beef have been at the forefront, it is clear that overall biotechnology issues are becoming more prominent in trade negotiations. As the world prepares for the next agriculture round of GATT negotiations, pressures associated with topics such as sanitary and phytosanitary standards (SPS) and genetically modified organisms (GMOs) indicate that biotechnology is likely to be a huge brick in the EU trade barrier wall, limiting U.S. access to European markets.

- GMOs, also called transgenic crops, are crops that are genetically modified to express a desirable quality, most commonly resistance to insects and viruses. The U.S. is the largest producer of transgenic crops, with 63.75 million acres in cultivation. The EU has established a lengthy approval process for transgenic crops which has severely limited the ability of the U.S. to export crops or seeds to the European market.

- The U.K. has taken further action in recent weeks; their Chief Medical Officer called for formation of an advisory panel of scientists, and the British Medical Association recommended labeling transgenic crops and segregating them from non-transgenic crops so their health effects can be monitored.

- The most recent figures indicate that the total goods trade deficit with Western Europe increased from $2.2 billion in February to $3.2 billion in March. Exports increased $1.6 billion to $15.2 billion, while imports increased $2.5 billion to $18.4 billion.

- According to the USDA Foreign Agriculture Service, during the first quarter of 1998, the trade surplus with the EU for agriculture products was almost $1.0 billion, but in 1999, that figure has fallen to only $200 million.

- For agricultural products, 1999 first-quarter figures indicate that exports to the EU are down 25.5 percent below the same period in 1998, while imports from the EU increased almost 7 percent over the same comparison periods.

- From 1996 to 1998, exports of agricultural products to the EU fell from $9.0 to $7.8 billion, while imports from the EU rose from $6.5 to $7.3 billion (the highest level since before 1970).

- Continued resistance from the EU to the importation of US-produced agricultural products over issues related to biotechnology-enhanced production practices will have devastating effects on our trade defecit.

U.S. Imports & Exports of Agricultural Products
($ in Billions)

European Union-15	Calendar Years 1997	1998	January-March % Change
Imports	6.953	7.349	6.94
Exports	8.898	7.845	-25.50

U.S. AND FRENCH TAX POLICY ISSUES INTERESTING PARALLELS

- The 1999 French budget cut the locally administered business tax by $4.9 billion over five years. Local officials opposed the reform as the revenue collected was generally the largest revenue item in their budgets. The Minister of Economy and Finance won over local government officials with promises that all lost tax revenues will be directly compensated out of central government funds. (Reminiscent of VA Governor Gilmore's "No Car Tax?")

- In early January 1999, the French government announced plans to reform the tax treatment of capital gains tax on stock options. This action was in response to French high-tech companies' complaints that high taxes on stock option gains penalizes risk takers and innovation.

- However, in mid-January, capital gains reform plans were abruptly dropped by Prime Minister Jospin. Political observers say that he was attempting to avoid a political battle with the Socialist coalition government, which sees stock options as a fringe benefit offered to high-paid executives and any reduced taxation is a "gift to the rich." (*Bulletin* readers may draw their own parallel.)

- In February 1999 the French Minister of Environment announced plans to tax excess application of fertilizers and all pesticides and herbicides used in agricultural production to adapt the "polluter pays" principle to the agricultural sector. (Superfund reform?)

- France is likely to implement new energy taxes in its 2000 budget. According to the French government, new energy taxes could finance a promised reduction in payroll taxes and help the EU meet its greenhouse gas reduction commitments. Parliamentary discussions begin in June. (U.S. tax reform and Kyoto treaty discussions?)

- In March, France published a set of tax rules on tax deductibility of corporate expenses in dealing with the Y2K problem. (The millennium bug is not confined to the U.S.)

- Of course, there is one notable difference between the two nations' policies -- the base level of taxation. The US general government revenues totaled 32 percent of GDP last year versus 51 percent in France (OECD figures).

✯ NEW ON OUR WEB SITE ✯

A paper recently presented in Tokyo, by the SBC Staff Director entitled: Fiscal Policy in the U.S. & Japan, Surpluses and Deficits; May 13, 1999.

Coming Attraction: The *Bulletin* is pleased to announce a new sister publication: **"The Economic Bulletin"** which will be published monthly by the SBC staff, under the direction of Chief Economist Amy Smith. The first issues will be available on the web site in early summer.